General Plan Feasibility Analysis

The City is currently updating three elements of the Long Beach General Plan: land use, mobility, and economic development. This analysis tests the financial feasibility of proposed land use changes. The land use element will stand for roughly 20 years, during which the real estate market will go through up and down swings and development feasibility will change. Therefore, this analysis outlines the general conditions which must be met for a project to be financially feasible, and it tests feasibility of specific hypothetical projects in today's market. The analysis explores the feasibility of the following:

- Residential (Multi-family & Condos)
- Office
- Retail
- Mixed-Use
- Transit Oriented Development

The analysis provides a general explanation of the development process, risks, and the factors that influence the feasibility of all projects such as land costs, the entitlement process, project design, interest rates, market support, labor and material costs, parking requirements, etc.

The study also tests the feasibility of six hypothetical projects given current market conditions. For an in-depth look at the feasibility Proformas please see the Feasibility Proformas Report.

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What is the Development Process?

All development should be driven and supported by market demand. Rents must cover all operating costs, the mortgage that finances the project, and profit for investors. The stages of development include:

- Market Analysis. To test the market support for a project (rents, occupancy rate, amenities, price points), a developer will complete an analysis of demographic trends, market trends and comparable projects and competitive supply.
- Site Selection. A project's success depends on its location. Proximity to major employment centers, good demographics, parks, shopping and entertainment centers make a location desirable; as do visibility, access to arterials, and safety.
- Regulatory Approval. Regulatory approvals for zoning variances, building permits, parking, and project design take time and introduce risk into a project.
- Design, Site Planning and Engineering. The project should respond to market requirements in terms of amenities, design, parking, and price point. Project design has a great impact on construction costs, and architects must make trade-offs between construction costs, aesthetics, and operating costs.
- Construction Financing. Construction financing typically has a two year term and an interest rate of one to three points over prime. Banks will not loan more than 75 percent of the total project cost, and the developer picks up the remainder. Lenders are cautious about making construction loans because they are risky due to cost overruns, increasing material costs, material shortages, delays caused by weather or regulatory concerns, and leasing risk. Lenders require developers to secure a loan with personal assets, so a developer must have a net worth equal to the loan. Some lenders require that a portion of a project be pre-leased prior to loaning funds.
- Construction. Construction typically takes 18 months, and introduces new risks: material and subcontractor delays, changing material costs, change-orders as design problems are discovered, unanticipated environmental issues, and more.
- Permanent Financing. Upon project completion, the developer will seek permanent financing, and interest rate increases at this stage will reduce developer profit.
- Marketing, Leasing and/or Sale of Project. The leasing process can take from two months to two years. Most developers lease out and stabilize at least 80 percent of a building prior to selling it as an investment property. All projects will sell for more if they are "leased up" prior to sale.
- Operations and Maintenance. Project rents must pay for ongoing maintenance, operations, debt service on the mortgage, taxes and profit.

Developers Take Risks

- Developers risk their own money in their projects. Banks typically finance 50 to 75 percent of a project, with equity investors and the developer covering the remainder. The developer pays for up-front costs: site control, feasibility analysis, conceptual design plans, and the entitlement process for building approvals.
- Most developers do not see a return on their investment for at least three years, as the developer takes the last money out of a project, after the bank, contractor, architect and others have been paid.
- Most developers require an internal rate of return of at least 18 percent to undertake a project. Office development is more risky than industrial or residential development, so developers require a higher (25 percent) IRR for office development.

Development Issues in Long Beach

Land is Limited
- Vacant land has become scarce and small parcel sizes make development more difficult.

Urban Reuse Can Be Difficult
- Reuse of sites with existing structures with economic value is more expensive than building on a vacant site. The existing structure's economic value must be subtracted from any profits that the new development will generate. This can make reuse infeasible unless the proposed project has a big up side.

Small Projects are Less Feasible
- Small projects are less desirable and small lots often take longer to attract a developer, as it takes just as long for a developer to complete a small project as a larger one. Smaller projects must be relatively more profitable to attract a qualified developer.

Regulatory Process
- Long Beach's entitlement process takes up to eight months depending on the complexity of the project. Long regulatory approvals discourage developers as they expose the developer to more market risk and tie up the developer's equity, which reduces profits.

Parking Requirements
- Parking significantly impacts the feasibility of most projects. Many good projects have been stalled by high parking requirements. Parking is expensive to build: $1,500 per space for surface parking, $8,000-$10,000 per space for structure parking, and $16,000-$24,000 per space for underground parking, exclusive of land costs. High land values further increase the cost per space. Parking spaces rarely pay for themselves through parking fees and are a cost center for the development.

Revitalization is a Slow Process
- Transformation of an area that has issues such as crime, poor property maintenance, incompatible uses, and/or undesirable uses can take many years.

No Two Projects Are Alike
- While all projects face similar development feasibility issues, no two projects are alike. Project feasibility is influenced by local real estate market characteristics, zoning requirements, design issues, construction costs, and a variety of other variables. Indeed, even a project that is feasible today may not be possible in the future if interest rates rise or rents fall.

Feasibility is Sensitive to Interest Rates
- When interest rates are high, income properties such as office, industrial, retail and multi-family don't generate enough cash to finance construction. Low interest rates precipitate intense development activity.

Unanticipated Infrastructure Costs
- Many infill projects are located in areas where infrastructure, while in place, may be too obsolete or under-size to adequately serve new development. In these areas, infill feasibility can be impacted by the high cost of replacing or expanding outdated or undersized water or sewer pipes.

The Unexpected
- Events often do not go as planned, delays often occur, and costs change. The less certainty in a project the higher the return a developer will seek before proceeding with the project.

Residential Development

Projected Multifamily Demand

- Long Beach is projected to add 19,337 new households by 2025.[1] However only 35 percent of these new households will both be able to afford market-rate multi-family housing and want it.[2] The Long Beach market will support at least 6,768 new multi-family units through 2025, or 340 units/year.
- Douglas Park is anticipated to include 1,400 new housing units, and it will reduce demand for new housing in other areas of Long Beach for at least three years, once Douglas Park starts selling units.

Conditions for Development

- Vacancy of less than 5 percent results in higher rents and new residential development.
- Multi-family residential development is highly cyclical because it is very sensitive to interest rates. With interest rates of 7 percent or less, hundreds of new multi-family units generally are built per year. Interest rates of 8+ percent typically stop new multi-family construction.

Current Multi-family Market

Long Beach's vacancy rate is below five percent (Q3, 2004); though it ranges from a very low 1.6 percent in the Southeast side of long Beach to a high of 11.6 percent in Downtown Long Beach.

Median Rents and Vacancy by Long Beach Neighborhood, 2004

Neighborhood	Vacancy Rates	Average Rents	Year to Year Average Rent Increase
Southwest	11.6%	$ 1,582	4.3%
Northside	2.7%	$ 947	8.9%
Westside	3.3%	$ 946	3.1%
Southeast	1.6%	$ 1,422	5.1%
Eastside	3.1%	$ 1,343	2.4%
Long Beach	6.0%	$ 1,245	3.1%

Source: RealFacts; MJC, 2004

Monthly rents average $1.75/sf for a one bedroom, one bath unit; $1.83/sf for a two bath, two bedroom unit; and $1.00/sf for a three bedroom two bath unit.

Median Rents by Unit Type, 2004

Unit Size	Rent/ Sq.Ft	Average Rent/ Month
1 br / 1 bth	$ 1.75	$ 1,214
2 br / 1.5 bth	$ 1.83	$ 1,691
3 br / 2 bth	$ 1.00	$ 1,209

Source: RealFacts; MJC, 2004

Size Matters

Projects of less than 50 units are rarely financially feasible because of higher development, operating and management costs per unit. Experienced developers prefer multi-family and condo projects of 50 to 300 units, though the projects may include multiple buildings with a variety of unit types.

Parking

Parking can use more land than residential units in a multi-family project. Consider a four-story apartment building with two-bedroom units of 1,000 square feet each. The land footprint would be 250 square feet per unit (1,000 square feet divided by four stories), however the land footprint for two parking spaces (at 350 square feet per parking space) would total 700 square feet. The land and construction cost of providing parking can sink the economic feasibility of small residential projects.

Three Story Residential with Ground Floor Retail

Two & Three Story Residential

[1] Southern California Association of Governments, 2004

[2] Forty-three percent will purchase a condo or single family home and the remainder will seek out affordable housing or live in existing lower quality multi-family units.

Projected Condo Demand

Approximately 31 percent of new Long Beach households earn enough to afford a condo but not enough to purchase a single family home. These new residents will create demand for an additional 185 units/ year and at total demand of 3,675 units by 2025.

Conditions for Development

- The condominium market is very sensitive to interest rate fluctuations. When interest rates rise the average condo price falls, as buyers qualify for less mortgage.

Current Condo Market

- Current demographic trends and rapidly increasing single family home prices have created a strong market for condos among urban singles, couples without children, empty-nesters, and seniors.
- The median price for a condo varies by neighborhood from a high of $348,783 in the Southeast to a low of $206,000 in North Long Beach.

Project Size and Amenities

Median Condo Price by Long Beach Neighborhood, Nov 2004

Neighborhood	Price/ sq. ft.	Median Price
Southwest	$ 308.17	$ 285,615
Northside	$ 148.00	$ 206,000
Westside	$ 227.71	$ 284,076
Southeast	$ 312.38	$ 348,783
Eastside	$ 340.00	$ 344,571
Long Beach		$ 306,708

Source: DataQuick; MJC, 2004

- Project size matters in condo development, though not so much as for apartments. Condo projects can be as small as eight to ten units, but successful projects are generally larger (20+ units). External design and unit finishes in condos tend to be of higher quality than in rental apartments, resulting in a 15 to 20 percent condo construction cost premium.

Defect Insurance

- Due to the expansion of lawsuits against condo contractors, architects and engineers, a developer must obtain special construction defect insurance (which costs $12,000 to $15,000 per unit) to cover owner suits for construction defects.

Residential Feasibility

Hypothetical Residential Project

- Site: 53,000 sq. ft. site on PCH and Long Beach Boulevard.
- Zoning Requirements: Residential R-4-H district. A high-rise, high density, multifamily residential district, with maximum height of 50' or 5 stories. All parking must be within an enclosed garage (1 space/studio, 1.5 spaces/1BR, 2 spaces/2+ BR; one guest parking space for every 4 units)

Feasibility Analysis Findings

As indicated in the tables below, the site was analyzed for condo and multifamily residential development and a variety of project sizes. As shown, both condo and rental apartments are infeasible for a small 1.5 story project of 45 units. However, a medium sized (3 story) and larger (5 story) apartment project is feasible for the site, given current market conditions. A condo project will be feasible wehn condo sale prices increase from the current $285/sf to $300/sf.

Apartment Project Feasibility Analysis

	Multifamily		
	Small Project	Medium Project	Large Project
Total Stories	2	3	5
3 BR Units	5	10	20
2 BR Units	35	50	80
1 BR Units	10	25	30
Parking spaces	103	166	263
Development Cost	10.9 Million	18.1 Million	26.6 Million
Developer Equity	2.7 Million	4.5 Million	6.6 Million
Rate or Return (IRR)	12%	16%	18%
Feasibility	Infeasible	Possible	Feasible

Source: MJC, 2005

Condo Project Feasibility Analysis

	Condo		
	Small Project	Medium Project	Large Project
Total Stories	2	3.5	5
2 BR Units	45	85	115
1 BR Units	0	0	0
Parking spaces	101	191	259
Development Cost	12 Million	22 Million	29.8 Million
Developer Equity	3 Million	5.6 Million	7.5 Million
Current IRR	Loss	Loss	7%
Current Feasibility	Infeasible	Infeasible	Infeasible
IRR @ $300/SF	8%	15%	18%
Feasibility @ $300/SF	Infeasible	Possible	Feasible

Source: MJC, 2005

Retail Development

Projected Demand

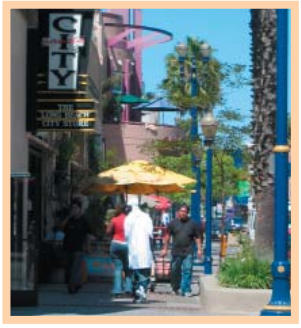
- Long Beach's overall demographic trends should support an additional 500,000 square feet of new retail over the next ten years, or 50,000 square feet per year. Current over-supply of retail space in Downtown Long Beach is evidenced by vacant storefronts in the Pike, CityCenter and in street level retail of many new residential condominiums in downtown Long Beach. This oversupply of retail will discourage new retail development in the downtown for the next few years.

Current Market

- Long Beach's retail market includes a diverse cross-section of retail types: downtown retail, recently developed malls, older strip retail, and neighborhood retail centers. Overall, the average asking lease rate for retail space is currently $1.81 per square foot per month. However, asking rents range from a low of $1-2.25/sq. ft. on North Long Beach Blvd., to around $2.25/sq. ft. along Downtown's Pine Avenue, and to $3.00/sq. ft. in Belmont Shore.
- The Douglas Park project is anticipated to include 200,000 square feet of retail space which will leave approximately 300,000 square feet of unmet demand in the remainder of the City through 2015.

Project Financing

- For larger projects, developers must pre-lease retail space to anchor tenants to obtain construction financing.
- Some retail developments offer investors a defense against inflation, as leases are typically renewed on a short term (three years) and the price of non-luxury retail consumer goods such as groceries and drugs typically rise at the rate of inflation and therefore can support rising rents. This does not hold for luxury and specialty retail centers which are more difficult to finance.



Office Development

Projected Demand

- The strength of the office market is directly tied to job growth and interest rates. Rapid job growth results in lower vacancy, higher rents and more office development. Job losses result in rising office vacancy, lower rents, and no development.
- Long Beach will add between 800 and 1,400 new office jobs per year through 2025, which translates into new demand for 160,000 to 280,000 square feet of office space per year. This projected demand is consistent with the city's past development record, as Long Beach has added, on average, 200,000 sq.ft. of commercial space per year since 1990.

Conditions for Development

- An office market with less than eight percent vacancy is primed for additional office development. At eight percent vacancy the market switches from a lessor's to an owner's market and rents begin to rise as tenants compete for limited space.
- Lease rates of $3/sq. ft. will encourage speculative office development in Long Beach.

Current Market

- Currently Long Beach's office vacancy is 10.4 percent. Currently, lease rates range from $1.65 to $2.16/ sq. ft.

Long Beach Office Market, Class A & B Space, Q3 2004

Sub-Market	Total Inventory sq. ft.	Vacancy Rate	Lease Rate ($/sq ft)	Absorption
Downtown Long Beach	3,939,752	13.3%	$ 2.16	50,210
North Long Beach	787,251	10.4%	$ 1.65	(18,007)
East Long Beach/Marina	479,257	7.7%	NA	(6,494)
Long Beach Airport/Freeway	2,965,228	6.9%	$ 1.87	33,060
Total Long Beach	***8,171,488***	***10.4%***	***$ 2.00***	**58,769**
El Segundo/Beach Cities	10,159,604	23.4%	$ 2.11	203,181
Torrance Central	3,520,481	17.4%	$ 2.02	(71,759)
LAX/Century Blvd.	3,884,716	30.6%	$ 1.51	(18,051)
190th Corridor	3,506,630	19.7%	$ 1.88	(33,886)
South Bay Market	***21,071,431***	***23.1%***	***$ 1.95***	**79,485**
Total Market	***29,242,919***	***19.5%***	**1.96**	**138,254**

Source: Cushman & Wakefield, 2004; MJC 2004

Pre-leasing Requirements

- Typically one-third of a project's office space must be pre-leased to quality tenants prior to construction financing, and sixty percent of office space should be pre-leased prior to permanent financing. In a hot market pre-leasing requirements are ignored and speculative office buildings are built.
- Upon completion, the developer will lease out the space and sell the property to an investor. An office building's value is derived from its overall occupancy and the value of its signed leases, rather than construction costs.

Commercial Feasibility

Commercial Project: Alternative One

- Location: 35,100 sq. ft. lot on Cherry and Anaheim.
- Permitted Land Uses: General Commercial only, no residential uses. Maximum height of 28 feet or 2 stories. Parking requirement of 1 space /250 sf. of net floor area.

Two Story Retail & Office

Feasibility Findings

As indicated in the table to the right, the proposed site was analyzed for retail only, office only and a mix of retail and office development. Retail uses are not feasible on the second story of a small building, which is why the retail only scenario is a single story building.

This small commercial site is difficult to develop because of the two story height limit and the parking requirements. As shown, both retail only and office only alternatives are not financially feasible at this time. The mixed-use project, composed of equal components of retail and office, is marginally feasible for a small and courageous developer.

Commercial Project Feasibility Analysis

		Office	
	Retail Project	Office Project	Mixed Project
Total Stories	1.25	2	2
Office Space (sq.ft.)	-	26,000	13,000
Retail Space (sq. ft.)	16,000	-	13,000
Parking spaces	66	104	104
Development Cost	3.4 Million	7.1 Million	6.3 Million
Developer Equity	1.1 Million	1.7 Million	1.4 Million
Rate or Return (IRR)	14%	11%	16%
Feasibility	Infeasible	Infeasible	Possible

Source: MJC, 2005

Commercial Project: Alternative Two

- Location: 15,000 sq. ft. lot on Long Beach Blvd. and Market Street.
- Permitted Land Uses: General Commercial only, no residential uses. Maximum height is 28 feet or 2 stories. Parking requirement of 1 space /250 sf of net floor area.

One Story Retail

Feasibility Findings

As indicated in the table to the right, the proposed site was analyzed for retail only, office only, and a mix of retail and office. Retail uses are not feasible on the second story of a small building, which is why the retail only scenario is a single story building.

This commercial site is difficult to develop due to its very small size. As shown none of the alternatives are financially feasible at this time.

Commercial Project Feasibility Analysis

		Office	
	Retail Project	Office Project	Mixed Project
Total Stories	1	2	2
Office Space (sq.ft.)	0	10000	5000
Retail Space (sq. ft.)	5000	0	5000
Parking spaces	20	40	40
Development Cost	1.5 Million	2.8 Million	2.5 Million
Developer Equity	$ 375,000	$ 702,000	$ 637,000
Rate or Return (IRR)	Loss	11%	12%
Feasibility	Infeasible	Infeasible	Infeasible

Source: MJC, 2005

Mixed-Use Development

Projected Demand

Mixed-use developments typically fall into two categories: those that respond to current market conditions and those that transform the market by creating demand. The economics of the latter derive from the notion that the mixed-use project can itself generate market support for some of the accessory uses. For example, if housing and office uses are combined, a market is created for shops by the project. In either case the market for a mixed-use project will consist of the market for its constituent uses, including existing and induced as described in the rest of this document.

Reduced Risk

- Mixed-use developments diversify the developer's and investors' opportunity for income and spreads risk across a variety of uses. For example, a mixed office/ residential project will continue to perform if the office market declines.

Project Size

- Mixed-use developments have greater front end risks that create a higher "price of admission." Risks include more complex management and entitlements, financing from multiple sources, and the need to penetrate different markets simultaneously. As a result, mixed-use developments must be large enough to provide sufficient return for the increased risk.
- The typical mixed-use in-fill project is at least 50,000 to 100,000 square feet while suburban projects can be acres in size and consist of multiple buildings.

Design

- Mixing residential and commercial uses allows a project to reduce overall parking, as shared parking is used by workers and customers during the day and by residents at night. This improves project feasibility by reducing construction and land costs.
- Mixed-use design must address layering, separation and combining uses in the project. For example, a late night coffee shop should have extra sound insulation to protect residents from noise during evening hours.

The Entitlement Process

- The entitlement process for mixed-use projects can be more complex than for single-use projects. Community members and planning department staff should be trained in mixed-use projects so they do not unnecessarily delay or increase the complexity of the entitlement process.

Financing

- Mixed-use developments with office, retail, and civic elements sometimes require separate appraisals and financing for each land use.

Other Benefits of Mixed-Use Developments

Planners have long recognized a number of non-financial benefits to mixed-use projects. For example, mixed-use projects:

- Encourage a healthy life-style
- Reduce air pollution and traffic congestion
- Build community
- Improve the urban form and aesthetics of the built

Mixed-Use Feasibility

Hypothetical Project

- Site: 53,000 sq. ft. site on PCH
- Zoning Requirements: Mixed-use, high-rise, high density district, with maximum height of 50' or 5 stories. All residential parking must be within an enclosed garage and different uses can share parking (1 space/studio, 1.5 spaces/1BR, 2 spaces/2+ BR; 1 space/250 sq. ft. of commercial development).

Feasibility Analysis Findings

- As shown in the table below, all three scenarios are not currently feasible. However, once condo sale prices increase from $285 to $300/sf, retail sale prices increase from $150 to $160/sf, and office sale prices increase from $165 to $200/sf the largest project will be feasible.

Mixed-Use Project Feasibility Analysis

	Small Project	Mid-Sized Project	Large Project
Total Stories	2	4	5
Residential 2 BR Units	35	80	95
Office Space (sq.ft.)	5,000	7,000	10,000
Retail Space (sq. ft.)	5,000	7,000	10,000
Parking spaces	110	216	270
Development Cost	12 Million	24 Million	29 Million
Developer Equity	3 Million	5 Million	7.2 Million
Rate or Return (IRR)	Loss	2%	3%
Current Feasibility	Infeasible	Infeasible	Infeasible
IRR @$ 300/sf for Condo, $160/sf for Retail and $200/sf for Office	Loss	6%	17%
Future Feasibility	Infeasible	Infeasible	Feasible

Source: MJC, 2005

Transit Oriented Development (TOD)

Projected Demand

Transit Oriented Development will be most successful in downtown Long Beach where transit is highly accessible. Reduced parking requirements will be incentive enough to encourage some TOD development. The market for TOD will consist of the market for its constituent uses.

- Office TOD. Transit Oriented office buildings are successful in downtown areas with high land costs and traffic congestion. The ability to increase FAR in a TOD project can attract development to a site. In addition, TOD office gets a 1 to 10 percent rent premium over non-TOD office.
- Residential TOD. Residential TOD is successful when the primary work destination is a congested downtown like Long Beach. Several researchers have found that tenants will pay a "rent premium" for development projects located near rail transit. For example, a 1997 Bay Area analysis found "purchase premiums" of $2,880 to $48,960 per unit and "rent premiums" averaging $50 per month for TOD projects.[1]
- Retail TOD. Most retailers draw customers from large market areas and require customer parking, thus retail TOD should be a small project component that serves project tenants and the immediate neighborhood.

Project size

TOD projects typically require parcels of two-plus acres to attract experienced TOD and mixed-use developers. Successful mixed-use and single-use TOD projects in California have included:

- Residential density of 30 to 70 units per acre and a total project size of 100 to 500 units.
- Office development of 80,000 to 650,000 square feet, with an FAR of at least two.
- Retail and restaurant development of 4,000 to 50,000 square feet depending on the TOD project's location and market.

Project Value

TOD typically include higher quality design than non-TOD projects due to the entitlement process. TODs also experience higher resale values, which can be attributed to more intangible 'quality of life' benefits, such as increased opportunities for walking, proximity to neighborhood stores, access to transit, and a stronger sense of 'belonging' to a neighborhood.

Parking Requirements

The TOD project must include sufficient parking to insure economic success. The amount of parking that should be included will depend on site uses and the existing urban fabric and mix of uses in the transit stop area. Some TOD projects have suffered from offering too little parking. However, research and the experience of successful TOD projects indicate that existing parking requirements can safely be reduced by:

- 20 to 30 percent for residential,
- 30 percent for office, and
- 5 to 20 percent for retail.

Entitlements

- Entitlements can be simplified for TOD projects with the formation of 'specific area plans' around major transit stops, or similar planning tools such as transit overlay zones. By shortening an otherwise long and possibly unsuccessful entitlement process such efforts can encourage developers to undertake TOD. Every effort should be made to insure that local entitlement processes do not run counter to the goals of TOD in terms of density, parking ratios, and street widths.

Financing

- Commercial lenders are starting to support TOD, though some are put off by reduced parking ratios.
- Financed TOD projects generally include: well-planned phasing so that cash flow is generated early in the project; a developer with a solid track record in TOD or mixed use; and multiple sources of capital with varying investment time-lines to ease repayment and investment requirements.

What is TOD?

TOD can consist of residential, office, retail or mixed use projects, typically with less parking, higher densities and oriented physically towards a transit stop to encourage transit use. TOD projects have been developed in California by private developers, transit agencies, nonprofit groups, redevelopment agencies, local governments, and public-private partnerships. TOD projects themselves have included a wide range of uses including: office, market rate and affordable housing, hotels, social services, grocery stores, retail, and mixed-use projects.

[1] *Statewide TOD Study: Factors for Success in California*, 2002

TOD Feasibility

Hypothetical Project

- Site: 53,000 sq. ft. site on Long Beach Blvd.
- Zoning Requirements: A Mixed-Use, TOD, high-rise, high density district, with maximum height of 50' or 5 stories. All residential parking must be within an enclosed garage and different uses can share parking (1 space/studio, 1.5 spaces/1BR, 2 spaces/2+ BR; one guest parking space for every 4 units, 1 space/250 sq. ft. of commercial development).
- PD-29 allows the Planning Commission to reduce parking requirement for non-residential projects if located less than 600 feet from a light rail station.

Feasibility Analysis Findings

- As shown in the table below, none of the mixed-use TOD scenarios are feasible at this time. However, both the mid-sized and larger project will become feasible when condo prices increase from $285 to $300/sf.

TOD Project Feasibility Analysis

	Small Project	Mid-Sized Project	Large Project
Total Stories	1.8	4	4.5
2 BR Units	44	80	100
2 BR Condos (sq. ft.)	46,200	84,000	10,500
Office Space (sq.ft.)	5,000	10,000	15,000
Retail Space (sq. ft.)	5,000	10,000	15,000
Parking spaces	104	195	259
Development Cost	13.7 Million	25 Million	31.6 Million
Developer Equity	3.4 Million	6.2 Million	7.9 Million
Rate or Return (IRR)	2%	9%	7%
Current Feasibility	Infeasible	Infeasible	Infeasible
IRR @ $300/SF for Condos	14%	21%	19%
Feasibility	Infeasible	Feasible	Feasible

Source: MJC, 2005

Glossary of Terms

Capitalization Rate

- The "Cap Rate" is used to compare the financial return of different projects with each other. The Cap Rate is calculated by dividing Net Operating Income by the project's total development cost.

  CAP Rate= NOI/Total Project Cost

- Generally, developers research the Cap Rate for existing for-sale projects, and then use that same Cap Rate to determine a hypothetical value of the proposed project based on its estimated NOI. If the hypothetical project value exceeds the developer's actual development costs, the developer would be better served by purchasing an existing project than by building a new one. New development should have higher Cap Rates than existing developments in the same market. Cap Rates vary between 5% and 15% depending on the type of project and local market conditions.

Entitlement Process

- The entitlement process consists of obtaining all necessary regulatory approvals and permits prior to the start of construction, including zoning variances, design approval, building permits, etc.

Floor Area Ratio (FAR)

- The FAR for a project defines how many square feet of floor area are allowable under zoning codes given a specific land area. Thus, with an FAR of 4, a 2,000 square foot lot could accommodate up to 8,000 square feet of floor space.

Internal Rate of Return

- The IRR is a cash flow summary that has been adjusted to reflect the time value of money. It includes the initial investment of equity by the developer, the income that the property generates over a holding period and the final selling price for the project. Essentially an IRR tells the developer the average annual return of the project spread over a holding period. Most developers want an IRR that is 12 to 15 percent higher than what they would obtain from risk-free government bonds. Currently Treasure Bills are returning 2.5 percent annually, so an IRR of at least 16 to 17 percent is acceptable in today's climate for most projects.

Net Operating Income

- Net Operating Income is the income left after subtracting management costs, maintenance and operations costs, and utilities, insurance and taxes from total income.

Calculating Feasibility

To calculate the financial feasibility of any project, including the test projects in this analysis, one must:

1. Identify and estimate all "hard costs"

- Land purchase price and site demolition costs for existing structures and infrastructure
- Site work costs (landscaping, curbs, sidewalks, etc.)
- Project construction costs (buildings & parking)
- Environmental mitigation costs
- City taxes
- Construction escalation (5%) & contingency (10%)

2. Identify and estimate all "soft costs"

- Architectural: architect, structural, mechanical & electrical engineers, the feasibility study, geo tech and soils, and testing & special inspections
- Cost estimator
- Environmental assessment
- Construction interest, fees, title & recording
- Permanent financing, including origination fees, title & recording
- Legal & leasing expenses
- Rent-up and operating reserves
- Permits: planning fees, building permit fees, environmental fees, school fees, park & recreation fees, and transportation fee
- Construction manager and project manager
- Other: fire, liability & course of construction insurance, property tax, accounting and management set-up
- Soft cost contingency (10%)

3. Analyze current market conditions for:

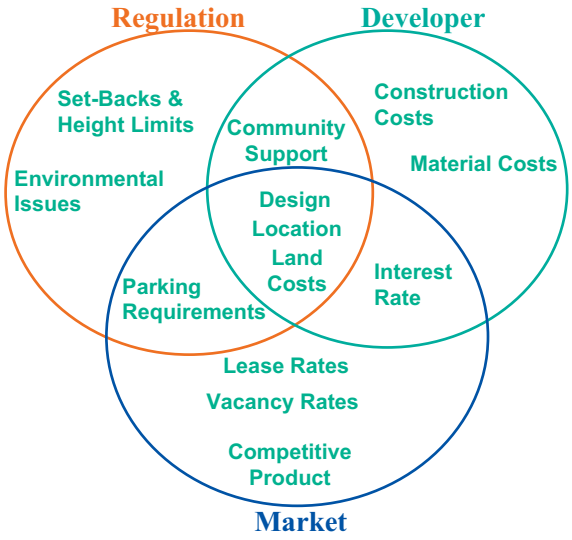
- Project program requirements, unit size & amenities
- Rental or lease rate
- Occupancy rate
- Occupancy costs: management fee, maintenance & operations, utilities, insurance, property taxes, etc.
- Mortgage rate and terms, anticipated debt service
- Operating reserves to complete major repairs.

4. Develop the Operating Proforma

- A detailed ten-year cash flow statement is used to evaluate the financial feasibility of a project. The "proforma" projections illustrate the relationships between development cost, project financing, operating revenues and expenses, and final cash flow from the project.
- A detailed cash flow models these relationships over a ten-year period, and calculates both the Internal Rate of Return and the Capitalization Rate for the project.

Factors that Influence Feasibility

Feasibility is impacted by a variety of inter-related factors including regulation, the market, and developer experience. These factors are summarized in the chart below, which also illustrates how some factors such as land costs are influenced by on all three factors.



1. Market Forces

- Lease rates
- Vacancy rates
- Amenities & design
- Land values
- Competitive product
- Interest rates

2. Regulatory Control

- Allowable uses
- Design requirements
- Set-backs and height limits
- Parking requirements
- Entitlement process
- Community support

3. Developer and Construction Industry

- Developer experience
- Construction costs, material costs
- Design
- Market analysis and site selection

Advance Planning Bureau
City of Long Beach
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How do I get involved?

- √ Check out our website which details lots of information, maps, and a meeting schedule: **www.longbeach.gov/plan**.
- √ Attend one or more community or citywide General Plan Update advisory meetings.
- √ Send your comments on land use and mobility issues to City staff.
- √ Ask to be notified by email of upcoming community or citywide meetings on the General Plan Update.
- √ Participate in public workshops to get informed, confirm issues, test the vision and land use policy options, and confirm recommendations.

To get involved, contact:

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